

COPY

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND )  
ELECTRIC COMPANY d/b/a VECTREN ENERGY )  
DELIVERY OF INDIANA, INC. ("VECTREN SOUTH- )  
GAS") FOR (1) AUTHORITY TO INCREASE ITS )  
RATES AND CHARGES FOR GAS UTILITY SERVICE; )  
(2) APPROVAL OF NEW SCHEDULES OF RATES AND )  
CHARGES APPLICABLE THERETO; (3) AUTHORITY, )  
TO THE EXTENT NECESSARY AS AN ALTERNATIVE )  
REGULATORY PLAN, TO RECOVER ITS )  
UNACCOUNTED FOR GAS COSTS AND THE GAS )  
COST COMPONENT OF ITS BAD DEBT EXPENSE IN )  
ITS GAS COST ADJUSTMENT FILINGS; (4) )  
APPROVAL OF A DISTRIBUTION REPLACEMENT )  
ADJUSTMENT TO RECOVER THE COSTS OF A )  
PROGRAM FOR THE ACCELERATED )  
REPLACEMENT OF CAST IRON MAINS AND BARE )  
STEEL MAINS AND SERVICE LINES; (5) APPROVAL )  
OF THE IMPLEMENTATION OF THE SALES )  
RECONCILIATION COMPONENT OF THE ENERGY )  
EFFICIENCY RIDER PROPOSED IN CAUSE NOS. )  
42943 AND 43046 OR OTHER RATE DESIGN )  
CHANGES THAT UNLINK ITS FIXED COST )  
RECOVERY FROM ITS SALES VOLUME; (6) )  
APPROVAL AS AN ALTERNATIVE REGULATORY )  
PLAN PURSUANT TO IND. CODE § 8-1-2.5-6 OF A )  
RETURN ON EQUITY TEST TO BE USED IN LIEU OF )  
THE STATUTORY NET OPERATING INCOME TEST )  
IN ITS GAS COST ADJUSTMENT PROCEEDINGS; (7) )  
AUTHORITY PURSUANT TO 170 IAC 5-1-27(F) FOR A )  
NON-GAS COST REVENUE TEST TO DETERMINE )  
WHEN DEPOSITS ARE REQUIRED FOR FACILITIES )  
EXTENSIONS; AND (8) APPROVAL OF VARIOUS )  
CHANGES TO ITS TARIFF FOR GAS SERVICE, )  
INCLUDING INCREASES IN CERTAIN NON- )  
RECURRING CHARGES. )

FILED

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INDIANA UTILITY  
REGULATORY COMMISSION

CAUSE NO. 43112

VERIFIED PETITION AND NOTICE OF INTENT TO FILE IN  
ACCORDANCE WITH MINIMUM STANDARD FILING REQUIREMENTS

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN  
ENERGY DELIVERY OF INDIANA, INC. ("Petitioner" or "Vectren South-Gas") respectfully

requests authority to increase its rates and charges for gas utility service rendered by it; approval of new schedules of rates and charges applicable thereto; authority to recover its unaccounted for gas costs and the gas cost component of its bad debt expense in its gas cost adjustment filings made pursuant to Ind. Code § 8-1-2-42(g); approval of a Distribution Replacement Adjustment to recover the costs of a program for the accelerated replacement of cast iron mains and bare steel mains and service lines; for approval of the implementation of a Sales Reconciliation Component of the Energy Efficiency Rider provided for in the Settlement Agreement in Cause Nos. 42943 and 43046; approval as an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-6 of a return on equity test to be used in lieu of the statutory net operating income test in its gas cost adjustment (“GCA”) proceedings; and approval of various changes to its tariff for gas service, including increases in certain non-recurring charges. In support of this request, Petitioner respectfully shows the Commission:

1. Petitioner’s Corporate and Regulated Status. Petitioner is an operating public utility, incorporated under the laws of the State of Indiana, with its principal office and place of business in the City of Evansville, Indiana. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a) and an energy utility as defined in Ind. Code § 8-1-2.5-2 and is subject to regulation by the Commission in the manner and to the extent provided by the laws of the State of Indiana, including Ind. Code § 8-1-2-1 *et seq.*

2. Petitioner’s Operations. Petitioner provides gas utility service to approximately 112,000 customers in nine (9) counties in southwestern Indiana. Petitioner renders such gas utility service by means of utility plant, property, equipment and related facilities owned, leased, operated, managed and controlled by it (collectively referred to as the “Utility Properties”) which

are used and useful for the convenience of the public in the production, treatment, transmission, distribution and sale of gas.

3. Petitioner's Utility Properties. As of March 31, 2006, the original cost of Petitioner's gas utility plant in service was approximately \$191,130,000. After deduction of accumulated depreciation of approximately \$80,229,000, the net original cost of Petitioner's utility plant in service was approximately \$110,901,000 at the same date. Petitioner is continuing to make additional investments that are reasonably necessary for Petitioner to properly serve the public located in its service area and to discharge its duties as a public utility. The fair value of the Utility Properties is and will continue to be substantially in excess of the original cost thereof.

4. Petitioner's Existing Rates. Petitioner's existing basic rates and charges for gas utility service were established pursuant to the Commission's Order dated June 30, 2004 in Cause No. 42596.

5. Petitioner's Operating Results Under Existing Rates. Since its rates and charges for gas utility service were last established, Petitioner has continued to make significant capital expenditures for additions, replacements and improvements to its Utility Properties. Also, the fair value of Petitioner's Utility Properties has increased and will continue to materially increase. At the same time, expenses and other costs have increased. As a result, Petitioner's return upon its Utility Properties is, and will continue to be, below the level required to permit Petitioner to earn a fair return upon the fair value of its Utility Properties; to provide revenues which will enable it to continue to attract capital required for additions, replacements and improvements to its Utility Properties at a reasonable cost; to maintain and support Petitioner's credit; to assure

confidence in Petitioner's financial soundness; and to earn a return on the value of its Utility Properties equal to that available on other investments of comparable risk. As a consequence, Petitioner's existing rates and charges now are and will continue to be, insufficient to provide revenues adequate to cover its necessary and reasonable operating expenses and provide the opportunity to earn the fair return to which Petitioner is lawfully entitled. The existing rates of Petitioner, therefore, are unjust, unreasonable, insufficient and confiscatory and should be increased.

6. Petitioner's Business Risk. In the aftermath of the highly publicized financial struggles of many prominent energy companies, the financial market's perception of utility risk has changed. This has resulted in aggressive and swift action by rating agencies in reducing credit ratings to reflect increased risk. Exacerbating this situation, usage per customer has declined in recent years, making it increasingly difficult for Petitioner to generate sufficient revenues to cover expenses and earn a reasonable return. Also, gas supply costs have risen significantly in price, thereby increasing bad debt and interest expenses well above prior levels. These and other changes have heightened scrutiny of Petitioner's financial condition by rating agencies. Timely and adequate rate relief is necessary for Petitioner to respond to these market conditions.

7. Petitioner's Proposed Rates and Charges and Tariff Terms. Petitioner requests that new rates and charges be authorized that will enable Petitioner to realize a proper and adequate net operating income to render safe, adequate and continuous gas utility service to the public. Petitioner proposes to cancel its existing rate schedules governing the gas utility service rendered by it and to file with the Commission in lieu thereof new schedules of rates and charges

applicable thereto. The proposed rate schedules will be set forth in the exhibits that Petitioner will offer as evidence in this proceeding.

8. Unaccounted For Gas Costs. Under Petitioner's current rate design, unaccounted for gas (UAFG") costs are included in base rates in an amount reflecting a historical UAFG percentage. Although Petitioner has been successful in maintaining a relatively low UAFG percentage, the inclusion of UAFG costs in base rates is no longer an accurate method of cost recovery because of the extreme increase in gas price volatility that has occurred in recent years and is expected to continue in the foreseeable future due to market conditions over which Petitioner has no control. In these circumstances, the current rate design creates a high risk of over recovery and under recovery of UAFG costs. In order to eliminate this risk to the customers and the Company and to improve the accuracy of UAFG cost recovery, Petitioner proposes that UAFG costs be included in the revenue requirement used to establish base rates in this proceeding but that the Commission authorize Petitioner to track any differences between the base rate amount and the actual UAFG costs in Petitioner's quarterly gas cost adjustment filings made pursuant to Ind. Code § 8-1-2-42(g). This proposed recovery method is permitted by the GCA statute, would require only minor changes to the Petitioner's GCA schedules, and is consistent with the way UAFG costs are recovered in many other jurisdictions. Petitioner's proposal will ensure that Petitioner will recover no more and no less than the actual UAFG cost incurred by it in providing service to its sales customers, as is the case with the other gas costs recovered in the GCA. For gas volumes delivered to transportation customers and pool operators, Petitioner proposes that the UAFG percentages determined in this proceeding be applicable, until further revised and approved by the Commission. Petitioner will continue to report its UAFG percentage and volumes on GCA Schedule 11A on an annual basis to allow the

Commission and other interested parties to review the reasonableness of Petitioner's UAFG level.

9. The Gas Cost Component of Bad Debt Expense. Petitioner incurs gas costs in order to ensure the reliable supply of gas to its customers. Petitioner's gas costs are recovered in its GCA. The GCA mechanism in its current form determines the GCA by dividing Petitioner's gas costs by its sales volume. However, when customers do not, or cannot, pay their bills and collection efforts are unsuccessful, Petitioner must write-off the uncollected amount as bad debt expense. Approximately 70% to 80% of these uncollected bills represents gas costs that have been incurred by Petitioner. In the past, when gas costs were more stable (and lower), a representative level of bad debt expense, including the gas cost component, was recovered in base rates. But today, as discussed above, gas costs are much higher and much more volatile than in the past. Therefore, Petitioner proposes to include the gas cost component of bad debt expense in the revenue requirement used to establish base rates in this proceeding, but that the Commission authorize Petitioner (to the extent necessary as an alternative regulatory plan) to track the difference between the base rate amount and the actual bad debt gas costs in its quarterly GCA filings. Including the gas cost component of bad debt expense in the GCA is permitted by the GCA statute and is the most accurate and appropriate way to recover these gas costs, especially given the very high and volatile market price for gas. Petitioner's case-in-chief will include proposed GCA schedules that would be used to effectuate this change. If its proposal is approved, Petitioner will report to the Commission annually on its actual bad debt experience, so the Commission may review the reasonableness of Petitioner's bad debt expense level.

10. Distribution Replacement Adjustment. Petitioner requests that the Commission approve a Distribution Replacement Adjustment (“DRA”) that will allow Petitioner to recover the capital costs, depreciation expense and property taxes associated with a 20-year Program to accelerate the replacement of cast iron mains and bare steel mains and service lines. The DRA is needed to make it economically feasible for Petitioner to make the sizeable incremental investments in non-revenue producing plant that is necessary to replace this aging infrastructure. The Program will provide a number of benefits related to reliability of service, public safety and over time the reduction of future maintenance expenses. Petitioner’s proposed DRA will be described in detail in its case-in-chief and will include the regular submission of program construction plans to the Commission and annual filings to submit evidence as to the incremental investments made pursuant to the Program in the prior year, the revenue requirement relating thereto and the derivation of DRA factors to recover the revenue requirement. In such filings, Petitioner will also reduce the revenue requirement to reflect maintenance expense savings attributable to the Program, based on the miles of main that have been replaced. The Program costs will be allocated to the rate schedules based on the distribution mains allocation in Petitioner’s cost of service study. As program investments are included in rate base in future base rate orders, such costs will be removed from the DRA.

11. Sales Reconciliation Component. The Settlement Agreement between Petitioner, Indiana Gas Company, Inc. (“Vectren North”) and the Indiana Office of Utility Consumer Counselor presently pending before the Commission in Cause Nos. 42943 and 42046 (“Efficiency Settlement”) provides that after approval of new base rates, Petitioner may implement the Sales Reconciliation Component (“SRC”) of the Energy Efficiency Rider described therein. Efficiency Settlement ¶ 23. Petitioner requests authorization to implement the

SRC pursuant to and as provided in the Settlement Agreement; provided, however, Petitioner proposes that Petitioner's SRC recover 100% of margins lost due to usage reductions by Residential and General Service rate schedule customers without the 15% offset that will be applicable to Vectren North. The Efficiency Settlement permits Petitioner to propose alternatives to the SRC in this base rate case so long as the proposed rate design is consistent with the objective of providing non-commodity cost recovery regardless of usage. Because in this proceeding all of Petitioner's costs are being reviewed, there is no reason to limit the SRC to less than 100% recovery of the margins approved herein. If and to the extent the Efficiency Settlement is not approved in Cause Nos. 42943 and 42046, Petitioner proposes that the Commission approve in this proceeding the SRC as described above or other rate design changes that unlink Petitioner's fixed cost recovery from its sales volume.

12. Return On Equity Test. The Efficiency Settlement also provides for a return on equity ("ROE") test that will be used in Petitioner's GCA proceedings in lieu of the statutory net operating incoming earnings test currently being used. Efficiency Settlement ¶¶29-33. If and to the extent the Efficiency Settlement is not approved in Cause Nos. 42943 and 42046, Petitioner proposes that an ROE test be approved in this proceeding. An ROE test will accommodate the DRA discussed above and the income requirement associated with other incremental investment needs of Petitioner better than the net operating income test.

13. Alternative Regulatory Plans. Petitioner requests that the ROE test be approved by the Commission as an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-6. The ROE test is in the public interest; will be beneficial to Petitioner, its customers and the state; and will promote energy efficiency. To the extent any other proposals of Petitioner (such as its proposal to include the gas cost component of bad debt expense in its GCA filings) would



require Commission approval under Ind. Code § 8-1-2.5-6 as an alternative regulatory practice, procedure, mechanism or plan, Petitioner requests that the Commission provide any required approval thereunder. Pursuant to Ind. Code § 8-1-2.5-4, Petitioner elects to become subject to Ind. Code § 8-1-2.5-6 for purposes of the ROE test proposal made herein and any other proposals that may require approval under that statute.

14. Other Tariff Revisions. Petitioner will propose a number of revisions to its tariff for gas service that will be described in its case-in-chief, including but not limited to revisions to the rate schedule applicable to transportation for schools and school suppliers, imposition of a \$50 fee on Pool Operators for creditworthiness evaluations, increases in certain non-recurring charges, two new economic development riders, revisions to its facilities extension deposit requirements, and other changes for improved clarity and administrative simplification. Pursuant to I70 IAC 5-1-27(F), Petitioner requests Commission approval to change the test for determining when a deposit is required for an extension of Petitioner's gas facilities from three years of total revenue to 5 1/2 years of non-gas cost revenue.

15. Notice Of Intent To File In Accordance With Minimum Standard Filing Requirements. Petitioner hereby provides notice to the Commission of its election to proceed under the Commission's rules on Minimum Standard Filing Requirements, 170 IAC 1-5-1 et seq. ("MSFRs"). Petitioner's case-in-chief is being filed simultaneously with this petition in conformity with the MSFRs. Pursuant to 170 IAC 1-5-7 through 16, Petitioner will submit within two weeks the workpapers required by the MSFRs and direct testimony and exhibits on its proposed rate structure, cost of service study and proposed tariff.

16. Test Year Rate Base and Other Procedures. Petitioner is utilizing in this proceeding a test year of the twelve (12) months ended March 31, 2006 and the procedures provided for in the Commission's Rules on MSFRs. Petitioner requests that the Commission set a procedural schedule that will allow it to issue an order on Petitioner's requested rate increase and the other proposals made herein within ten (10) months of the filing of Petitioner's case-in-chief as provided by 170 IAC 1-5-2(c)(4).

17. Prehearing Conference and Preliminary Hearing Requested. Pursuant to 170 IAC 1-1.1-15(b) of the Commission's Rules of Practice and Procedure, Petitioner requests that a date be promptly fixed for a prehearing conference and preliminary hearing for the purpose of fixing a procedural schedule in this proceeding and considering other procedural matters.

18. Customer Notification. Petitioner will provide its customers with a notice summarizing the nature and extent of the proposed rate changes as required by the Commission's rules.

19. Applicable Statutory Provisions. Petitioner considers that the provisions of Ind. Code §§ 8-1-2-4, 6, 7, 9, 24, 25, 38, 42, 61, 68 and 71, and Ind. Code § 8-1-2.5-6, among others, are applicable to the subject matter of this petition.

20. Attorneys for Petitioner. Robert E. Heidorn (Atty. No. 14264-49), VECTREN CORPORATION, One Vectren Square, 211 N.W. Riverside Drive, Evansville, Indiana 47708, Daniel W. McGill (Atty. No. 9489-49), BARNES & THORNBURG LLP, 11 South Meridian Street, Indianapolis, Indiana 46204, and Robert M. Glennon, 3697 North 300 East, Danville, Indiana 43122 are counsel for Petitioner and are duly authorized to accept service of papers in this Cause on Petitioner's behalf.

WHEREFORE, Petitioner respectfully prays that the Commission promptly conduct a prehearing conference and preliminary hearing and expeditiously make such investigation and hold such hearings as are necessary or advisable in this Cause. Thereafter, Petitioner respectfully prays that the Commission issue an Order:

- (1) Finding that Petitioner's existing rates for gas utility service are unjust, unreasonable, insufficient, and confiscatory and inadequate to provide a fair return on the fair value of Petitioner's Utility Properties used and useful for the convenience of the public in rendering gas utility service;
- (2) Determining and by order fixing increased rates and charges to be imposed, observed and followed in the future by Petitioner in lieu of those so found to be unjust, unreasonable, insufficient and confiscatory;
- (3) Authorizing and approving the filing by Petitioner of new schedules of increased rates and charges applicable to its gas utility service so as to provide just, reasonable, sufficient and nonconfiscatory rates;
- (4) Authorizing Petitioner to recover its unaccounted for gas costs and the gas cost component of bad debt expense in its quarterly GCA filings;
- (5) Authorizing Petitioner to implement a Distribution Replacement Adjustment as described above and in Petitioner's evidence submitted herein;
- (6) Authorizing Petitioner to implement the Sales Reconciliation Component of the Energy Efficiency Rider proposed in Cause Nos. 42943 and 43046, as modified as

described above, or other rate design changes that unlink Petitioner's fixed cost recovery from its sales volume;

- (7) Authorizing Petitioners to implement the proposed return on equity test in lieu of the statutory net operating income test in its GCA proceedings;
- (8) Approving various changes in the terms, conditions and provisions of Petitioner's tariff applicable to its gas utility service as proposed in Petitioner's evidence herein, including a variation from 170 IAC 5-1-27 to substitute a 5 1/2 year non-gas cost revenue test for the 3 years total revenue test in determining when a deposit will be required for a facilities extension; and
- (9) Granting such other and further relief as may be appropriate and proper.

SOUTHERN INDIANA GAS AND ELECTRIC  
COMPANY d/b/a VECTREN ENERGY  
DELIVERY OF INDIANA, INC.

By: 

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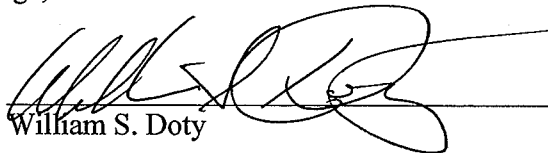
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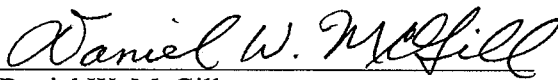
**VERIFICATION**

I affirm under the penalties for perjury that the statements and representations in the foregoing Petition are true to the best of my knowledge, information and belief.

  
William S. Doty

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that the foregoing Petition And Notice Of Intent To File In Accordance With Minimum Standard Filing Requirements was served by delivery upon the Office of the Utility Consumer Counselor, 100 North Senate Avenue, Room N501, Indiana Government Center North, Indianapolis, Indiana 46204, this 1<sup>st</sup> day of September, 2006.

  
Daniel W. McGill

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